City of Seal Beach

Peer Review and Site Specific Hotel Feasibility Evaluation

DWP Committee Draft – September 2011

Kosmont Companies

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1.0 Background

The City of Seal Beach ("City") retained Kosmont Companies ("Kosmont") to complete a peer review of a hotel market analyses prepared by PKF Consulting ("PKF") in November of 2003 and November of 2009 evaluating the market for a hotel development on approximately 10.7 acres ("Property", "Site") located along the Pacific Ocean within the City. The City also requested that Kosmont evaluate the feasibility of developing a hotel within the requirements and constraints of a Specific Plan approved by the City in 1996 covering the property ("Specific Plan").

The 2003 and 2009 PKF studies were prepared at the request of Bay City Partners, LLC ("Developer") to evaluate the potential market and financial performance of a hotel development on the Site. The Developer stipulates that the results of PKF's analysis support its position that a hotel use on the site as prescribed by the terms and conditions of the Specific Plan, and potentially even without the restrictions imposed by the Specific Plan is financially infeasible. The Specific Plan calls for visitor serving uses on the northerly 30% of the Property, and open space on the southerly 70% of the Property. Permitted visitor serving uses specifically include hotel uses and uses ancillary to a hotel.

This analysis includes an evaluation of the PKF reports, the financial feasibility of the four hotel development scenarios discussed therein, as well as an evaluation of three additional development alternatives that would likely be permitted under the Specific Plan. The revenues projected to be generated by, and the cost of developing each of these scenarios and alternatives were evaluated to determine if they would generate sufficient net operating income to support the financing required for development as currently available in the marketplace. Based on the estimated cost of construction and current lending requirements it appears unlikely that the revenue generated by either the four PKF development scenarios or the three additional development alternatives would be sufficient to support traditional debt financing of the same.

As part of its analysis Kosmont also evaluated the potential to develop a smaller, 60 room boutique style hotel that could theoretically be substantially or completely financed through a condominium hotel capital structure. Under a condominium hotel structure individual owners hold title to individual rooms with rights to use their rooms a certain number of days a year. The remainder of the year the rooms are available to the general public during which a split of net profit accrues to the room owner. Kosmont's conclusion is that such a development may represent the most financially feasible alternative; however, such alternative would require support from private investors at a time when private investors may have difficulty accessing capital, and at a time when there may be limited interest in such properties. Additionally, such condominium hotel structure may not be permitted under the controlling 1996 Specific Plan. Kosmont's conclusion is that such an alternative may be financially feasible, but such financial feasibility is far from certain or reliable. A detailed discussion of Kosmont's analysis and conclusions follow.

2.0 Site Profile

The Property is located at the mouth of the San Gabriel River Channel along the Pacific Ocean in Seal Beach, California. The Site is comprised of three parcels (Orange County Assessor Parcel Numbers 043-141-02, 043-172-08, and 043-172-13) and was formerly home to a Los Angeles Department of Water and Power ("LADWP") power plant. Depending on the record source and the inclusion or exclusion of roadway right of ways, the three parcels total between approximately 10.1 and 10.7 acres of land. The Property is rectangular and flat and enjoys reasonably unobstructed views of the beach and ocean. The proximate area is almost completely built-out and surrounding uses are primarily residential and / or recreational in nature. A discussion of additional details about the Property location, access, suitability for hotel development, history, and a recent settlement agreement between the City and Developer specific to the Property follow.

2.1 Location & Proximate Uses

The Property is located within the City of Seal Beach, at the westernmost point of Orange County, along the northern border with Los Angeles County. The City itself is home to roughly 25,000 residents concentrated within roughly one-third of the approximately 11 square miles of land area within the City. The City has a small town atmosphere that is home to large swaths of low intensity industrial and government uses with a significant presence of open space and nature preserves. As previously introduced the Property fronts the San Gabriel River channel where the river meets the Pacific Ocean. The northwestern edge of the Site is fronted by a regional bike trail along the river channel that terminates at the beach.

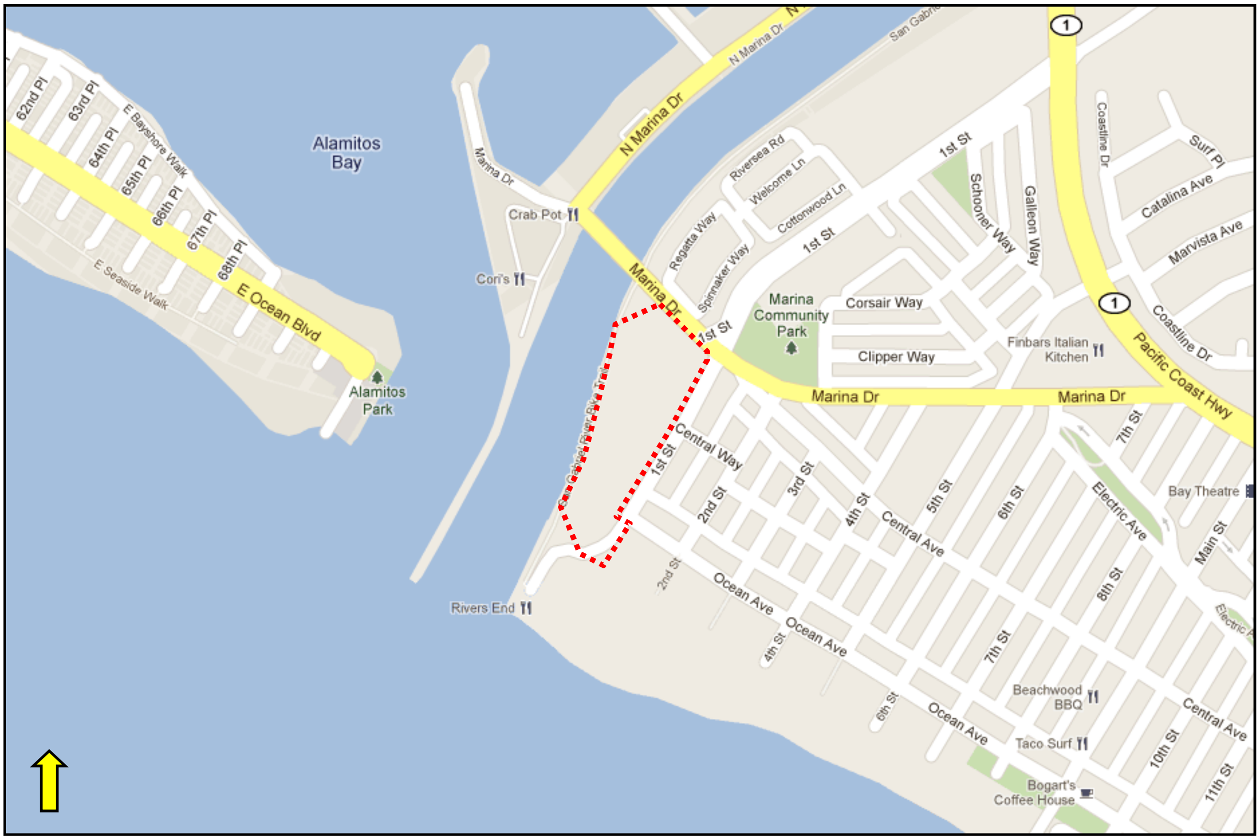
Neighboring uses to the southwest and north of the Property are primarily residential. The Marina Community Park lies to the east, and marina and retail uses lie to the northwest and across the river channel to the west. Additional commercial, retail and restaurant centers are located within approximately one mile of the Property. Finally, the Site is approximately six miles southeast of downtown Long Beach which is a major business and commercial center in the region.

An isometric aerial image of the Property follows in Figure 1: Site Aerial, and a map of the surrounding neighborhood can be found in Figure 2: Neighborhood Map.

Note: all property boundaries are approximate depictions. The yellow arrow found in the lower right-hand corner of the maps generally points to north.

Figure 1: Site Aerial

Figure 2: Neighborhood Map



2.2 Access

Both regional and local access to the Site is commercially reasonable but not particularly convenient, nor is the Property particularly visible from primary traffic corridors. The Pacific Coast Highway runs within half of a mile of the Site, and the intersection of the regional serving I-605 and the I-405 are within three miles. Bus service is available within less than one-quarter of a mile of the Site, but overall, public transit is generally limited and requires a number of transfers to get to most major destinations. The closest light rail station with regional access is approximately five miles away. Airport service is notably good with commercial service from the Los Angeles International Airport (26 miles), the Long Beach Airport (7 miles), and the John Wayne Airport (20 miles).

A map of the greater area can be found in Figure 3: Area Map, and the Property's location within the Los Angeles basin is depicted in Figure 4: Regional Map.

Figure 3: Area Map

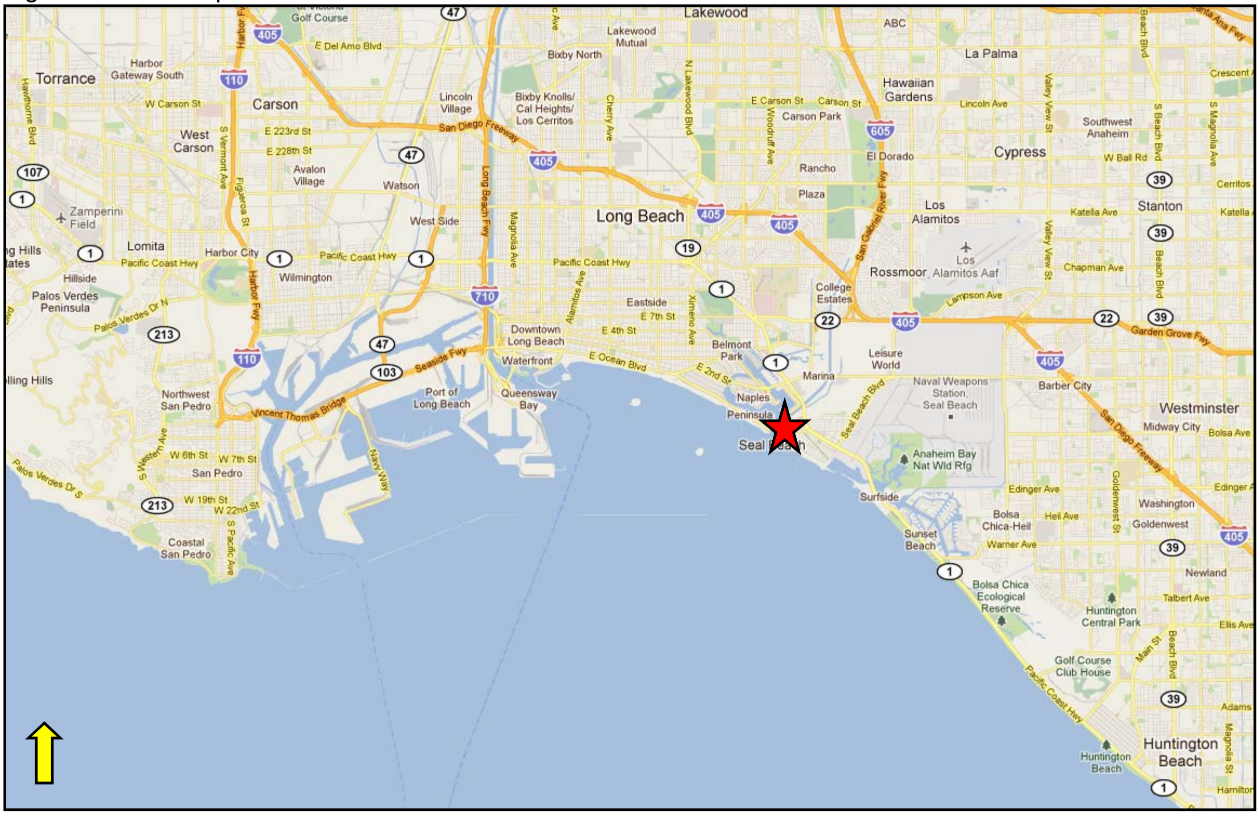
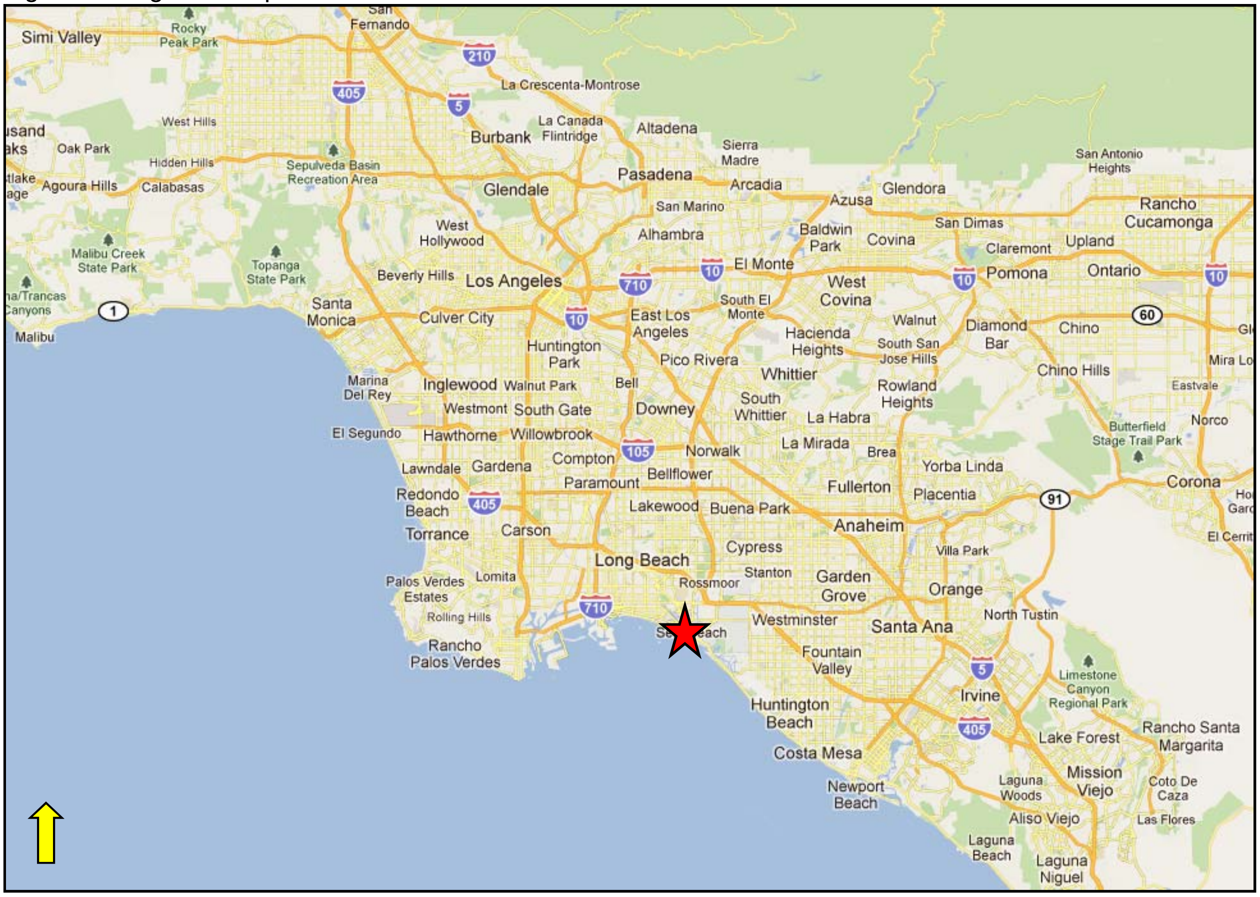


Figure 4: Regional Map



2.3 Site Suitability for Hotel Use

The characteristics that make for a commercially viable and competitive hotel location depend on the primary target market and customer base of a given hotel, but typically include some productive combination of the following:

- Transportation - Access via a variety of transportation means, and proximity to transportation corridors and nodes
- Demand Drivers – Proximity to business activity centers, conference facilities, tourist attractions, and other similar uses
- Area Amenities - Proximity and access to restaurants, retail, entertainment and recreational amenities

While overall Site access is reasonably good and there are a fair number of proximate visitor serving amenities and attractions, a hotel use on the Site would likely have to be somewhat of a destination in and of itself, with on-site amenities and attractors to buttress the ocean front appeal and drive hotel demand. In essence, the location is comparatively isolated, and a hotel on the Property would likely have to be sufficiently notable, and not reliant on incidental traffic to drive occupancy. As such, it is Kosmont's opinion that a smaller, boutique hotel with higher end amenities and a destination, resort like atmosphere would likely be the most successful on the

Property. Given the Site's access to the ocean this development profile is conceptually possible, yet current market conditions do not clearly support a choice by capital investors for this type of project, particularly because most hotel investment is flowing to existing product rather than ground-up projects such as this investment.

2.4 Ownership History

As discussed, the Site was previously owned by the LADWP and utilized for a power generation station. The power plant was demolished in the mid-1960's and the Property has remained vacant since. In 1999 the Developer entered into what was ultimately a four-year escrow to purchase the property from the LADWP for $4,501,000. Pursuant to public records, the Developer closed escrow and acquired fee simple title to the Property on May 27, 2003.

2.5 Developer's Desired Use

The Developer has indicated that it desires to construct a residential development on the Site in-lieu of the hotel use required under the Specific Plan. To this end it has submitted a proposal for a 48-unit single family residential project on the northern portion of the Site, and the City has indicated a wiliness to consider this proposal pursuant to the settlement agreement discussed below. This use would not be in conformance with the existing Specific Plan covering the Site, would require approval by the City, and given the proximity to the ocean, approval by the California Coastal Commission.

2.6 Settlement Agreement

In March of 2011 the Developer and City entered into a settlement agreement ("Settlement Agreement") related to various contentions between the two parties on the Property. Among other terms the Settlement Agreement stipulates that:

- The City will, in good faith, consider the Developer's proposed use of the Property for a 48-unit residential development.
- The City will pay the Developer $900,000 for an irrevocable sewer easement across the eastern edge of the Property.
- Upon the granting of certain entitlements for the Developer's preferred development, the City will pay the Developer $1,100,000 for fee title to portions of the Property to be retained as open space.

3.0 Specific Plan

Development of the Property is guided by a Specific Plan approved by the Seal Beach City Council in 1996 which explicitly details the approvable development envelope and development approval processes. For reference, the current Specific Plan was an update and successor to a Specific Plan approved by the Seal Beach City Council in 1982. Based on the approval date, the 1996 Specific Plan was in place before the Developer first entered escrow to purchase the property in 1999 and close of escrow in 2003.

The Specific Plan stipulates that development of the Property shall be limited to visitor-serving and open space uses. Visitor-serving uses are defined in the Specific Plan as a hotel and ancillary support uses including, but not limited to restaurants, retail uses, service uses, meeting / conference rooms and banquet facilities. Open space uses are defined as public parks, green belts, bike trails, nature trails, hiking trails, and any passive recreational uses normally located in parks or open spaces. Pursuant to the Specific Plan, visitor serving uses shall be limited to the northerly 30% of the Property (specifically limited to the area adjacent to Marina Drive and 1st Street) and the remaining 70% shall be for open space. As such, assuming total Site acreage of 10.7 acres, visitor serving uses are limited to approximately 3.2 acres and open space is required on the remaining 7.5 acres.

3.1 Allowable Visitor Serving Building Envelope

The 1996 Specific Plan includes a number of building parameters that establish the maximum building envelope of the visitor serving use. Pursuant to the Specific Plan, a hotel on the Site can have no more than 150 rooms or suites, building height is limited to 35 feet, and a 20 foot setback is required from both Marina Drive and 1st Street. Ancillary uses to a hotel such as restaurants, retail uses, and service uses may be provided to primarily serve hotel guests, but must also be open to the general public. Additionally, a banquet / meeting / conference room capable of accommodating up to 175 people is expressly approvable. The Specific plan allows for subterranean parking and prescribes a minimum number of parking spaces (surface or other) as follows:

- One space per room / suite
- One space per 100 square feet of gross restaurant floor area
- One space per 75 square feet of meeting room / conference room floor area
- One space per 300 square feet of retail use / service business

3.2 Maximum Development within Allowable Envelope

Pursuant to the various constraints provided by the Specific Plan the hotel must have 150 or fewer rooms, be less than 35 feet in height which is assumed to be three or fewer stories, sit on approximately 3.2 or fewer acres (139,828 square feet), and provide adequate parking pursuant to the requirements listed above. As necessary, parking could theoretically be provided via a subterranean structure, but subterranean parking is likely a cost prohibitive solution. A discussion of development alternatives considered compliant with the Specific Plan is provided in Section 7.0.

4.0 Market Conditions

The hospitality industry is a uniquely dynamic industry that is highly responsive to economic fluctuations and consumer trends. The industry is risk prone, and can yield developers and investors healthy returns, or equity cashflow deficits. The major limiting factor to new hotel development is the ability to access financing. New developments are frequently reliant on a blend of layers of high yielding equity, lower yielding mezzanine debt, and lower cost, traditional debt. Of late, traditional debt and bond offerings have displayed an aversion to new hotel development in favor of existing hotels with ongoing operations and proven revenues. As a result, financing for new developments is often provided only to experienced operators and / or provided with comparatively higher interest rates and debt coverage cushions. Finally, hotels require somewhat frequent and significant reinvestment and improvements to maintain even stable patronage, and this can lead to unacceptable long-term returns unless initial fundamentals are strong. A discussion of key industry terms, and the overall hotel market follows.

4.1 Fundamental Lodging Industry Terms

The hotel and lodging industry utilizes several metrics and terms to describe and evaluate hotel performance that are also utilized in this report. The most pertinent metrics and terms follow.

ADR – The Average Daily Rate or "ADR" represents the average income of an occupied, revenue generating room over a given time period, expressed on a per room basis. ADR is calculated by dividing total hotel room revenue by the number of occupied, revenue generating rooms, divided by the number of days being evaluated. For example, a hotel grossing $5,000,000 in a year with 100 available rooms would have an ADR of $137 ($5,000,000 / 100 / 365) for the year. For reference, the calculation of ADR excludes staff rooms, however some operators include complimentary room use, lowering the ADR.

Occupancy Rate – The occupancy rate is the percentage of rooms that are generating revenue in any given period. The occupancy rate is the inverse of the vacancy rate, and is calculated by dividing the number of rooms generating revenue by total number of rooms available to generate revenue. For example a 100 room hotel that, on average, has 75 occupied rooms, would have an occupancy rate of 75%.

RevPAR – The Revenue Per Available Room, or "RevPAR", is the average revenue generated by all available rooms expressed on a per room basis. RevPAR is calculated by multiplying the ADR by the occupancy rate. Continuing the example, a hotel with an ADR of $137 and a 75% occupancy rate would have a RevPAR of $103 ($137 x .75).

Key - Key is an industry standard term for room. A 100 room hotel would have 100 "keys". This term is often used in describing the cost of hotel as in "the hotel was purchased for $200,000 a key."

Flag – The term "flag" refers to the branding of a particular hotel by a major chain. Each brand (i.e. Hilton, Marriot, Best Western) has specific requirements including minimum room counts, design standards, and required on-site amenities. A hotel flag can help provide access to reservation systems, management expertise, and other valuable resources, but requires an operator to pay a franchise fee to the brand.

DSCR – The term Debt Service Coverage Ratio or "DSCR" is not unique to the industry, but worth defining. The DSCR is the ratio of net operating income to debt service. As an example, a lender may only provide financing if the DSCR is at or above certain levels. For new hotel developments the required DSCR is often above 1.35, meaning that for every dollar of annual debt service a hotel must have $1.35 or more of net operating income.

LTV – The Loan-to-Value or "LTV" is the amount a lender may be willing to lend against the total value of a hotel. In recent years the required LTV has decreased meaning that lenders will provide a reduced loan amount against the value of a particular project. Currently lenders will typically provide loans for 60% to 70% of the value of a hotel. Thus for each $1,000,000 in hotel value a lender may only provide $600,000 to $700,000 in financing with the balance of the required financing to be comprised of equity.

Capitalization Rate – The capitalization rate or "Cap Rate" helps to determine the theoretical value of a development or the return of an investment at a given price, and is equal to the annual cashflow of an investment before financing divided by the cost of the investment. For example a hotel generating $1,000,000 in annual cashflow that has a value of $10,000,000 would have a capitalization rate of 10% ($1,000,000 / $10,000,000).

Condominium Hotel – A condominium hotel or condo hotel / condotel is both a hotel ownership and financing structure. In recent years condominium hotels have emerged as an alternative financing vehicle for particularly attractive or desirable hotel operations. Through a condominium hotel individuals can purchase ownership of a hotel room and through such ownership have a right to occupy the room for a given number of days in any year. The remaining days during the year that the owner does not occupy the room, it is managed by the hotel and occupied by hotel guests. The owner and hotel typically split revenues from room occupancy less any hotel management costs. This structure is different from a time share or fractional ownership structure in that the room is not occupied by multiple owners throughout the year, but rather one owner for up to a small portion of the year and the remainder of the year it is utilized by paying hotel guests.

4.2 General Industry Performance

In recent years the market has experienced an overall decrease in revenues and operating performance. However, this decrease has been met with reductions in financing rates, required equity yields, and capitalization rates. This has served to help preserve hotel values, yet financing terms remain more restrictive than in years past, and many hotels continue to struggle to realize growth in average room rates and occupancy.

RevPAR

One of the most important figures in evaluating the health of the lodging markets is RevPAR. RevPAR trends can vary within markets and submarkets, however most markets have experienced a fairly dramatic reduction since 2008. Between the late 1980's and 2008 the Los Angeles County market as a whole grew at an average compound annual growth rate ("CAGR") of slightly higher than 4%. Notable fluctuations during this period include fairly significant reductions in the early 1990's and double digit declines following the events on September 11, 2001. In both cases the industry saw sizable increases in RevPAR two to four years subsequent. Since 2008 the regional industry has struggled to maintain growth, and average RevPAR remains well below 2008 levels. Current economic conditions and uncertainty may be indicative of suppressed room rates for several years to come; however, near term recovery in this volatile industry would not be unprecedented.

Capitalization Rates

Capitalization rates tend to follow interest rates and required equity yields, with some influence from perceived minimum per key valuations. For the most part capitalization rates based on existing, historic revenues have been fairly low, due to low interest rates and anticipated revenue growth. The decrease in revenues has been met by decreased capitalization rates, and resulted in some preservation of hotel values as a decrease in capitalization rates results in higher hotel values. Decreases in capitalization rates also suggest some continued appetite for hotel investments.

The only use of a capitalization rate in the analyses herein is in the estimation of hotel value 10 years from initial operations, as part of an evaluation of potential Developer return. For this evaluation a capitalization rate of 8% was utilized as it is considered more indicative of historic long term averages of roughly 10%, greater than the average over the last 10 years would suggest. An 8% rate may be conservatively low, to the benefit of the developer, and promote a conclusion of financial feasibility when a higher rate that would reduce financial feasibility may be justifiable. Table 1: Capitalization Rates 2000-10 showing the approximate hotel capitalization rates over the last 10 years follows.

Table 1: Capitalization Rates 2000-10

	Cap Rate Based on Historic NOI
2000	9.2%
2001	8.2%
2002	8.9%
2003	7.9%
2004	5.8%
2005	5.2%
2006	5.5%
2007	6.0%
2008	6.7%
2009	8.0%
2010	4.6%
Average	6.9%

4.3 Hotel Financing

New "ground up" hotel development is often considered a highly speculative venture suitable only for experienced, and / or well capitalized and risk tolerant developers. In most ground up hotel development scenarios equity capital is paired with a loan or debt to finance construction costs and the completed and operational hotel. The ratio of debt and equity required can vary depending on the specific site location, proven proximate market demand, the flag, and other similar factors. Additionally, the interest rate, and required return on equity are typically based on the same factors, as well as average interest rates and yields for investment alternatives in the financial markets. Average interest rates (pertaining mostly to stabilized operations) and equity yields from 2000 to 2010 are provided below in Table 2: Hotel Mortgage Rates and Equity Yields 2000-10.

Table 2: Hotel Mortgage Rates and Equity Yields 2000-10

	Hotel Mortgage Interest Rate	Equity Yield
2000	8.8%	21.0%
2001	7.8%	22.2%
2002	7.0%	21.0%
2003	5.9%	21.4%
2004	6.1%	19.7%
2005	5.6%	19.7%
2006	6.4%	18.9%
2007	5.9%	21.3%
2008	6.6%	19.3%
2009	8.2%	16.9%
2010	6.2%	15.9%
Average	6.8%	19.8%

4.4 Required Equity Returns

Historically equity investments in hotel developments have yielded high returns which are commensurate with the level of risk involved in the product type. As shown above in Table 2: Hotel Mortgage Rates and Equity Yields 2000-10, over the last 10 years required equity returns have ranged from approximately 15.9% to 22.2%. For new developments, proforma returns of 20% or greater are typically required to induce new hotel development. For the purposes of the financial feasibility analyses herein a rate exceeding 20% in the most conservative of assumptions (i.e. lowest interest rates, and most developer friendly) was required over a ten year horizon to be considered even potentially financially feasible.

4.5 Site Specific Market Demand

The customer base of a viable hotel on the site would likely be comprised primarily of a blend of leisure and business travel. The leisure component would likely include patrons from inland and other regions interested in vacationing at the beach, as well as patrons interested in staying close to family and friends in proximate communities. Business patronage would likely be driven by an interest in being near Long Beach, Huntington Beach, and other proximate commercial centers. Given the notable competition in the marketplace a viable hotel on the site would likely need to differentiate itself on a factor other than price, and appropriately not target the most price conscious consumer in either the leisure or business segments. To the extent conference facilities are available on-site, group patron could be encouraged, however there are many alternatives for such users in the marketplace.

4.6 Site Specific Competition

A hotel on the Site would likely compete with a variety of existing hotels located from Long Beach to the north to Huntington Beach to the south. Within this general area there is a wide variety of alternative offerings ranging from two to five stars, in locations on the water, close to the water / beach, and well inland, and operated under a number of well known and respected flags. The occupancy and ADR performance of the existing competition suggests that a new entrant to the marketplace would likely face less than optimal performance, unless the hotel's offering was unique such as can be the case with a boutique hotel. As such, market competition is strong, and any hotel on the Site would likely need to be notably attractive or unique in order to establish a viable position within the marketplace.

4.7 Summary of Market Condition

The financial markets currently exhibit a general aversion to lending for new hotel developments. However, some new developments have been able to secure loans to support construction and at a minimum, seven to 10 years of post construction financing. The ability to secure financing is critical to new hotel developments as developers can rarely justify committing or access enough capital to fully support construction costs, and without such financing, new hotel developments are financially infeasible. Recent financing terms evaluated in the marketplace include 7-10% interest rates, initial DSCRs of 1.35 – 1.40, and LTVs of 60-70%. For reference, a lower interest rate, lower DSCR, and higher LTV would be favorable for a developer (unless the required rate of return on equity is less than the interest rate). The best of these terms would be provided to experienced and / or well capitalized developers in proven markets.

For the purposes of the financial feasibility analyses provided herein, interest rates ranging from 7-10%, a DSCR of 1.35 and a 70% LTV were utilized. The use of these assumptions is considered conservative in that if the evaluated scenarios and alternatives were not financially feasible under the most favorable assumptions, then the scenarios or alternatives are likely financially infeasible.

5.0 PKF Scenarios

Subsequent to its purchase of the Property in 2003 the Developer retained PKF to prepare a market feasibility analysis. This initial 2003 report was updated by PKF in 2009 and included an evaluation of four development scenarios. A description of the included scenarios, and an evaluation of the fundamentals of the 2009 PKF report follow.

5.1 PKF Evaluated Alternatives – 2009 Report

In the 2009 PKF Report four potential development scenarios were evaluated, with estimated operating performance provided for each of the four. The alternatives are as follows:

PKF Scenario One: A 150 room, five to six-story hotel with surface parking and standard amenities found at a commensurate sized hotel. This scenario as proposed would not comply with the Specific Plan given the proposed building height.

PKF Scenario Two: A 75 room hotel superior in quality to PKF Scenario One. PKF Scenario Two would include standard amenities as well as a spa facility. This scenario as proposed would not comply with the Specific Plan given the proposed building location, but could conceivably be relocated to comply with the Specific Plan.

PKF Scenario Three: This scenario would be similar in profile to PKF Scenario Two however, would include an additional 25 rooms for a total of 100 rooms. This scenario as proposed would not comply with the Specific Plan given the proposed building location, but could conceivably be relocated to comply.

PKF Scenario Four: At the request of the Developer PKF evaluated this fourth scenario comprised of a 50 room hotel. This scenario would be similar in quality as PKF Scenario Two and PKF Scenario Three and similarly include a spa facility. It is presumed that this scenario could be developed in conformance with the Specific Plan.

As part of the evaluation of the PKF analysis, the primary tables used to calculate and project operating performance were recreated. These recreated tables allow for verification of calculations as well as modeling exercises to evaluate financial performance and sensitivity to differing RevPAR and other assumptions. The recreated spreadsheets are provided as Attachment A through D.

Note: The figures attached do not use the same rounding methodology as found in the PKF report and as such while the figures are usually extremely close, the two may not match perfectly.

5.2 Assumed RevPAR

As part of its analysis PKF included assumed ADRs and occupancy rates which are multiplied to estimate RevPARs for each of the PKF Scenarios. The provided RevPAR assumptions are based on existing operations from comparable hotels identified by PKF. RevPAR assumptions were provided for each of the PKF scenarios as shown in Table 3: PKF Assumed RevPAR.

Table 3: PKF Assumed RevPAR

		1 2014	2 2015	3 2016	4 2017	5 2018	6 2019	7 2020	8 2021	9 2022	10 2023
PKF Scenario One	**150 Rooms**										
Projected Occupancy		58.0%	64.0%	67.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Projected ADR		167.00	172.00	177.00	182.00	188.00	194.00	199.00	205.00	211.00	218.00
Projected RevPAR		**96.86**	**110.08**	**118.59**	**131.04**	**135.36**	**139.68**	**143.28**	**147.60**	**151.92**	**156.96**
PKF Scenario Two	**75 Rooms**										
Projected Occupancy		60.0%	64.0%	69.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
Projected ADR		191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
Projected RevPAR		**114.60**	**126.08**	**140.07**	**154.66**	**159.10**	**164.28**	**168.72**	**173.90**	**179.08**	**185.00**
PKF Scenario Three	**100 Rooms**										
Projected Occupancy		59.0%	64.0%	69.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
Projected ADR		191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
Projected RevPAR		**112.69**	**126.08**	**140.07**	**154.66**	**159.10**	**164.28**	**168.72**	**173.90**	**179.08**	**185.00**
PKF Scenario Four	**50 Rooms**										
Projected Occupancy		60.0%	65.0%	70.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Projected ADR		194.00	199.00	205.00	212.00	218.00	224.00	231.00	238.00	245.00	253.00
Projected RevPAR		**116.40**	**129.35**	**143.50**	**169.60**	**174.40**	**179.20**	**184.80**	**190.40**	**196.00**	**202.40**

(Source: 2009 PKF Study)

Based on Kosmont's independent analysis of market comparables, the projected RevPAR and underlying occupancy and projected ADRs are reasonable given the development profile of each of the PKF scenarios evaluated.

5.3 Ratio Analysis

The PKF analysis is reliant upon ratios of revenues and operational expenses of various standard hotel revenue and cost centers. The ratios provided in the PKF analysis of each of the scenarios are based upon actual operating performance of existing operations of the market comparables. In Table 4: PKF Projected vs. Expected Operating Ratios which follows, the underlying ratios used to project the operating performance of each of the scenarios are provided. Additionally, the range of anticipated ratios based on the metrics of market comparables independently evaluated, are provided to the right of the ratios for each scenario. Given the slightly different profile of each of the four scenarios evaluated by PKF, the ratios for each scenario are unique. However, due to each of the scenarios having somewhat similar amenities, the ratios are relatively close overall. The primary exception to this is the higher ratio of revenue in "Other Operated Departments" in PKF Scenarios Two through Four due to the inclusion of a spa amenity.

Table 4: PKF Projected vs. Expected Operating Ratios

	Scenario One	Scenario Two	Scenario Three	Scenario Four	Expected Range	
Rooms	150	75	100	50		
Revenue						
Room Revenue	64.6%	61.3%	62.5%	54.6%	60.0%	70.0%
Food & Beverage	26.9%	26.1%	24.6%	34.3%	25.0%	30.0%
Other Operated Departments	6.7%	11.2%	11.4%	9.8%	2.0%	10.0%
Rentals & Other Income	1.8%	1.5%	1.5%	1.3%	1.5%	3.0%
Total Revenue	100.0%	100.0%	100.0%	100.0%		
Departmental Expense						
Rooms	24.3%	23.6%	23.6%	23.4%	20.0%	25.0%
Food & Beverage	74.0%	76.0%	76.0%	76.0%	73.0%	78.0%
Other Operated Departments	70.0%	70.0%	70.0%	70.0%	25.0%	80.0%
Total Departmental Expense	40.3%	42.1%	41.4%	45.7%		
Departmental Profit	59.7%	57.9%	58.6%	54.3%		
Undistributed Operating Expenses						
Administrative & General	10.3%	10.3%	9.5%	9.1%	7.5%	10.5%
Marketing	5.1%	5.5%	5.1%	4.8%	4.0%	5.0%
Franchise Fee	0.0%	0.0%	0.0%	0.0%	0.0%	7.0%
Prop. Operations & Maintenance	5.1%	5.1%	5.1%	4.5%	3.5%	5.0%
Utilities	2.4%	2.5%	2.5%	2.2%	3.0%	4.5%
Total Undistributed Operating Expenses	22.9%	23.4%	22.2%	20.6%	18.0%	32.0%
Gross Operating Profit	36.8%	34.5%	36.4%	33.7%		
Management Fee	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fixed Expenses						
Property Taxes	2.8%	2.5%	2.7%	2.3%	1.5%	2.0%
Insurance	1.3%	1.4%	1.4%	1.2%	1.0%	2.0%
Total Fixed Expenses	4.1%	3.9%	4.1%	3.5%	2.5%	4.0%
Net Operating Income Before Reserve	29.8%	27.6%	29.3%	27.2%		
Furniture, Fixture & Equipment Reserve	4.0%	4.0%	4.0%	4.0%	4.0%	5.0%
Net Operating Income After Reserve	25.8%	23.6%	25.3%	23.2%	22.0%	30.0%

(Source: 2009 PKF Study; Expected Range – Kosmont Companies)

Overall the projected ratios of each of the PKF Scenarios fall within the range of the expected ratios with few exceptions. Additionally, the few exceptions are close to the expected range, are not noteworthy, and do not significantly skew the results of the operational performance analysis.

5.4 PKF Analysis Summary

In summary, Kosmont finds the PKF analysis to be both reasonable and reliable. An independent evaluation of the marketplace and market comparables suggests that the performance assumptions utilized for each of the PKF's scenarios is supportable, and can be relied upon for an evaluation of the resulting financial feasibility.

6.0 Financial Feasibility of PKF Scenarios

The next step in evaluating the 2009 PKF report was the analysis of the financial feasibility of the four development scenarios. A development scenario was considered financially feasible if the development could support the development and financing costs, meet the performance metrics likely required to secure financing, and provide the Developer with a reasonable return commensurate with the risk of developing a hotel. This portion of the analysis includes an evaluation of development costs including the cost of land, a review of the net operating income available to support the required debt payments, and the potential developer return under a range of assumptions.

6.1 Cost of Land

Based on publicly available information, the Developer purchased the underlying Property in 2003 for $4,501,000. Should the Developer receive payments pursuant to the existing Settlement Agreement, the Developer would receive a total of $2,000,000. To evaluate the Developer's effective land cost it was assumed that settlement payments would be received eight years after initial acquisition expenses, accrue to the Developer, be available to offset the incurred land costs, and that an effective land value of $4,500,000 could be recaptured upon development of the Site which was assumed to occur in 2014, roughly 10 years after acquisition. Thus, based on an initial outlay (assumed to be 100% equity) of $4,501,000, receipt of $2,000,000 eight years after acquisition, and in essence a sale two years later, or 10 years after acquisition for $4,500,000, the effective return on equity would be roughly 4%. A 4% return is less than desirable to encourage development activity, but is superior to the losses many developers and land speculators have realized of late. Additionally, the Developer would accrue any gains from the ultimate development of the Site. As such, despite the required capital outlay and long holding period the Developer will likely fair reasonably well, assuming a $4,500,000 land value upon development, and additional financial returns from the development project.

For the analyses herein a land value of $4,500,000 in 2014 was assumed. This value was utilized as it reflects the actual cost the Developer paid for the Property, and while the property was purchased more than eight years ago, land values have not appreciated much (if they have even held value since this time period due to a significant reduction between roughly 2007 and 2010 after a period of growth ending in 2007). For reference, assuming 3.2 developable acres of land, a total price of $4,500,000 is equal to value of $1.4 million per acre, or approximately $32 per square foot.

6.2 Development Costs

In order to estimate the amount of financing required to support the development and operation of each of the PKF scenarios, a range of development costs per key was estimated for each. These per key costs are unique to each development scenario, and reflect construction costs seen in the market of late. A summary of the assumed per key construction costs follows in Table 5: PKF Scenario Development Costs. These development costs are subsequently used to estimate the total required financing and derive the annual debt service in the next part of the financial feasibility analysis.

Table 5: PKF Scenario Development Costs

	PKF Scenario 1		PKF Scenario 2		PKF Scenario 3		PKF Scenario 4	
Quality (Stars)	3		4		4		4+	
Rooms	150		75		100		50	
Cost/Room	175,000	200,000	200,000	250,000	200,000	225,000	225,000	275,000
Total Construction Cost	26,250,000	30,000,000	15,000,000	18,750,000	20,000,000	22,500,000	11,250,000	13,750,000
Cost of Land		4,500,000		4,500,000		4,500,000		4,500,000
Total Development Cost	**30,750,000**	**34,500,000**	**19,500,000**	**23,250,000**	**24,500,000**	**27,000,000**	**15,750,000**	**18,250,000**

(Source: Kosmont Companies)

6.3 Assumed Financing Costs

A previously introduced, interest rates ranging from 7-10%, a DSCR of 1.35 and a 70% LTV were utilized in evaluating the annual debt service required to support the development of each of the PKF scenarios. These assumptions were applied to the estimated development costs above, and evaluated in relation to the projected operating performance of each of the PKF Scenarios. Additionally, the Developer's potential internal rate of return ("IRR") assuming financing could be secured was also evaluated. Tables showing the results for each of the four PKF scenarios follow in Table 6: Financial Feasibility - PKF Scenario One and Two and Table 7: Financial Feasibility - PKF Scenario Three and Four.

In each of the evaluations, both initial DSCR is below 1.35 (highlighted in red), and Developer IRR over a ten year period is less than 20%. As a result of these two critical metrics, the PKF scenarios appear financially infeasible as it is unlikely such development profiles could attract financing or produce enough cashflow to support the developer interest or investment required for construction and ongoing operations. These metrics suggest that the Developer would be unable to obtain financing with even the more aggressive and risk tolerant of lenders, and the proforma developer return would not be sufficient to warrant the risk of developing a hotel on the Site under the PKF Scenarios.

For reference, of the four PKF scenarios the two closest to financial feasibility are PKF Scenario One and Three, the 150 room and 100 room development scenarios, however, these scenarios as proposed do not comply with the 1996 Specific Plan. This scenario is estimated to realize the required DSCR in year three of operations and yield the Developer a return of approximately 16% over a 10 year horizon. Additionally RevPAR would have to be roughly 10% higher than projected for PKF Scenarios One and Three for Developer returns to exceed 20% at even the lowest interest rate of 7%, and RevPAR would have to be roughly 55% higher for the DSCRs to be at acceptable levels in the initial years. As such even these most optimistic of scenarios appear financially infeasible as, again, it is unlikely that it would produce enough cashflow to attract financing or support the developer interest or investment required to construct and operate the project.

Table 6: Financial Feasibility - PKF Scenario One and Two

PKF Scenario One

150 Rooms				1 **2014**	2 **2015**	3 **2016**	4 **2017**	5 **2018**	6 **2019**	7 **2020**	8 **2021**	9 **2022**	10 **2023**
Projected Occupancy				58.0%	64.0%	67.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Projected ADR				167.00	172.00	177.00	182.00	188.00	194.00	199.00	205.00	211.00	218.00
Projected RevPAR				96.86	110.08	118.59	131.04	135.36	139.68	143.28	147.60	151.92	156.96
Projected NOI (After Reserve)				1,448,589	1,988,380	2,258,335	2,850,154	2,948,255	3,046,229	3,126,658	3,224,368	3,321,943	3,436,795
Estimated Development Cost (Low)*	175,000	/ROOM	30,750,000										
Estimated Development Cost (High)*	200,000	/ROOM	34,500,000										
Estimated Financing Cost (Low)	7.0%	Interest Rate	70% LTV	1,718,476	1,718,476	1,718,476	1,718,476	1,718,476	1,718,476	1,718,476	1,718,476	1,718,476	1,718,476
DSCR				**0.84**	**1.16**	**1.31**	**1.66**	**1.72**	**1.77**	**1.82**	**1.88**	**1.93**	**2.00**
Developer Cashflow		IRR	16.2%	(9,494,887)	269,904	539,859	1,131,677	1,229,779	1,327,753	1,408,181	1,505,892	1,603,467	1,718,319
Estimated Financing Cost (High)	10.0%	Interest Rate	70% LTV	2,543,202	2,543,202	2,543,202	2,543,202	2,543,202	2,543,202	2,543,202	2,543,202	2,543,202	2,543,202
DSCR				**0.57**	**0.78**	**0.89**	**1.12**	**1.16**	**1.20**	**1.23**	**1.27**	**1.31**	**1.35**
Developer Cashflow		IRR	2.5%	(11,444,613)	(554,823)	(284,867)	306,951	405,053	503,027	583,455	681,166	778,741	893,592

PKF Scenario Two

75 Rooms				1 **2014**	2 **2015**	3 **2016**	4 **2017**	5 **2018**	6 **2019**	7 **2020**	8 **2021**	9 **2022**	10 **2023**
Projected Occupancy				60.0%	64.0%	69.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
Projected ADR				191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
Projected RevPAR				114.60	126.08	140.07	154.66	159.10	164.28	168.72	173.90	179.08	185.00
Projected NOI (After Reserve)				805,656	999,713	1,267,994	1,622,806	1,670,961	1,727,670	1,775,680	1,832,240	1,888,725	1,953,757
Estimated Development Cost (Low)*	200,000	/ROOM	19,500,000										
Estimated Development Cost (High)*	250,000	/ROOM	23,250,000										
Estimated Financing Cost (Low)	7.0%	Interest Rate	70% LTV	1,089,765	1,089,765	1,089,765	1,089,765	1,089,765	1,089,765	1,089,765	1,089,765	1,089,765	1,089,765
DSCR				**0.74**	**0.92**	**1.16**	**1.49**	**1.53**	**1.59**	**1.63**	**1.68**	**1.73**	**1.79**
Developer Cashflow		IRR	11.6%	(6,134,110)	(90,053)	178,229	533,041	581,196	637,905	685,914	742,475	798,959	863,991
Estimated Financing Cost (High)	10.0%	Interest Rate	70% LTV	1,713,897	1,713,897	1,713,897	1,713,897	1,713,897	1,713,897	1,713,897	1,713,897	1,713,897	1,713,897
DSCR				**0.47**	**0.58**	**0.74**	**0.95**	**0.97**	**1.01**	**1.04**	**1.07**	**1.10**	**1.14**
Developer Cashflow		IRR	-9.4%	(7,883,242)	(714,185)	(445,903)	(91,091)	(42,936)	13,773	61,782	118,343	174,827	239,859

*Includes Land at $4,500,000

(Source: 2009 PKF Study; Development, Financing Costs - Kosmont Companies)

Table 7: Financial Feasibility - PKF Scenario Three and Four

PKF Scenario Three

100 Rooms				1 2014	2 2015	3 2016	4 2017	5 2018	6 2019	7 2020	8 2021	9 2022	10 2023
Projected Occupancy				59.0%	64.0%	69.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
Projected ADR				191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
Projected RevPAR				112.69	126.08	140.07	154.66	159.10	164.28	168.72	173.90	179.08	185.00
Projected NOI (After Reserve)				1,109,325	1,459,068	1,817,628	2,275,305	2,342,836	2,422,366	2,489,691	2,569,012	2,648,225	2,739,430
Estimated Development Cost (Low)*	200,000	/ROOM	24,500,000										
Estimated Development Cost (High)*	225,000	/ROOM	27,000,000										
Estimated Financing Cost (Low)	7.0%	Interest Rate	70% LTV	1,369,193	1,369,193	1,369,193	1,369,193	1,369,193	1,369,193	1,369,193	1,369,193	1,369,193	1,369,193
DSCR				**0.81**	**1.07**	**1.33**	**1.66**	**1.71**	**1.77**	**1.82**	**1.88**	**1.93**	**2.00**
Developer Cashflow		IRR	15.9%	(7,609,867)	89,875	448,435	906,113	973,643	1,053,173	1,120,499	1,199,819	1,279,033	1,370,237
Estimated Financing Cost (High)	10.0%	Interest Rate	70% LTV	1,990,332	1,990,332	1,990,332	1,990,332	1,990,332	1,990,332	1,990,332	1,990,332	1,990,332	1,990,332
DSCR				**0.56**	**0.73**	**0.91**	**1.14**	**1.18**	**1.22**	**1.25**	**1.29**	**1.33**	**1.38**
Developer Cashflow		IRR	3.3%	(8,981,007)	(531,265)	(172,705)	284,973	352,503	432,033	499,359	578,680	657,893	749,097

PKF Scenario Four

50 Rooms				1 2014	2 2015	3 2016	4 2017	5 2018	6 2019	7 2020	8 2021	9 2022	10 2023
Projected Occupancy				60.0%	65.0%	70.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Projected ADR				194.00	199.00	205.00	212.00	218.00	224.00	231.00	238.00	245.00	253.00
Projected RevPAR				116.40	129.35	143.50	169.60	174.40	179.20	184.80	190.40	196.00	202.40
Projected NOI (After Reserve)				605,460	781,633	984,298	1,313,106	1,351,392	1,389,624	1,434,633	1,479,585	1,524,480	1,576,149
Estimated Development Cost (Low)*	225,000	/ROOM	15,750,000										
Estimated Development Cost (High)*	275,000	/ROOM	18,250,000										
Estimated Financing Cost (Low)	7.0%	Interest Rate	70% LTV	880,195	880,195	880,195	880,195	880,195	880,195	880,195	880,195	880,195	880,195
DSCR				**0.69**	**0.89**	**1.12**	**1.49**	**1.54**	**1.58**	**1.63**	**1.68**	**1.73**	**1.79**
Developer Cashflow		IRR	11.3%	(4,999,736)	(98,563)	104,103	432,910	471,197	509,429	554,438	599,390	644,285	695,954
Estimated Financing Cost (High)	10.0%	Interest Rate	70% LTV	1,345,317	1,345,317	1,345,317	1,345,317	1,345,317	1,345,317	1,345,317	1,345,317	1,345,317	1,345,317
DSCR				**0.45**	**0.58**	**0.73**	**0.98**	**1.00**	**1.03**	**1.07**	**1.10**	**1.13**	**1.17**
Developer Cashflow		IRR	-7.2%	(6,214,858)	(563,685)	(361,019)	(32,212)	6,075	44,307	89,316	134,268	179,163	230,832

*Includes Land at $4,500,000

(Source: 2009 PKF Study; Development, Financing Costs - Kosmont Companies)

7.0 Other Development Alternatives

In addition to the PKF scenarios previously discussed, a variety of sample, prototypical hotel developments that could fit within the constraints of the Specific Plan were evaluated. As a result of this review the following alternatives were developed and likely represent alternatives that would comply with the requirements of the Specific Plan.

7.1 Alternative A: 150 Room Hotel

Under Alternative A, a three-story, 150 room hotel would be constructed. The hotel would include a restaurant amenity and conference amenity, each approximately 2,000 square feet, and approximately 200 surface parking spaces. Rooms would average approximately 425 square feet. This plan and footprint would require that virtually the entire 3.2 acre hotel portion of the Site be used either for building footprint or surface parking, and may not permit much landscaping. Additionally it is unlikely that the building footprint would support even a small recreational amenity, and there almost certainly would be no other room for the same on the Site. The resulting hotel profile is likely less attractive than would likely be desired and would likely impair achievable ADRs. The potential for subterranean parking was also evaluated, however as suggested in the 2009 PKF report, subterranean parking at or below the water table as may be required on this site would likely be cost prohibitive, and increase the financial infeasibility of the scenario. Finally, the alternative parking solution of an aboveground structure would likely be visually unacceptable.

7.2 Alternative B: 100 Room Hotel

Under Alternative B, a three-story, 100 room hotel would be constructed. This alternative represents a probable profile for a typical hotel constructed within the constraints of the Specific Plan. The hotel would include a restaurant amenity and conference amenity, each approximately 2,000 square feet. The hotel could include a minor recreational amenity, and surface parking for approximately 150 vehicles, slightly in excess of the required minimums under the Specific Plan. Rooms would average approximately 425 square feet each. This plan and resulting footprint of approximately 25,500 square feet would accommodate some on-site landscaping around drive isles and minimal setbacks, but such landscaping would not be notably significant. The 100 room threshold is likely the fewest rooms that a hotel chain or “flag” would be willing to brand.

7.3 Alternative C: 60 Room Boutique Condominium Hotel

Under Alternative C, a three-story, 60 room boutique hotel would be developed. Under this scenario the hotel could theoretically be mostly to completely financed through the sale of individual rooms to private owners under a condominium hotel structure. Under a condominium hotel structure individual owners hold title to individual rooms with rights to use their rooms a certain number of days a year, and the remainder of the year the rooms are available to the general public during which a split of net profit accrues to the room owner. The reduced room count would help support slightly larger room sizes averaging 500 square feet, additional on-site amenities commensurate with boutique hotels, including up to 2,500 square feet of meeting / banquet space, 2,000 square feet of gross restaurant space, and 2,000 square feet for a spa or other similar use. Under the Specific Plan this development profile would require 120 parking spaces, which could be provided in a surface lot with a fair amount of landscaping and visual appeal.

8.0 Financial Feasibility of Development Alternatives

In order to evaluate the financial feasibility of the non-PKF development alternatives Kosmont backed into the RevPAR required to support the development of the hypothetical hotels on the Property. For the purposes of evaluating these additional development alternatives a land cost of $4,500,000 was again used pursuant to the discussion in Section 6.1 Cost of Land above.

8.1 Estimated Cost of Development of Alternatives

The first step in the feasibility analysis was to evaluate the potential cost of construction of the hypothetical development alternatives. The cost of construction per room or key can vary widely depending on the level of service, amenities, finishes, and type of construction of any particular hotel. The hypothetical development alternatives would likely support a three-star hotel under Alternative A, a four-star hotel under Alternative B, and a four-star plus boutique hotel under Alternative C and service, amenities, finishes and construction costs commensurate with the same. A range of the estimated development costs for each of the three development alternatives evaluated follows in Table 8: Estimated Development Cost below.

Table 8: Estimated Development Cost

	Alternative A		Alternative B		Alternative C	
Quality (Stars)	3		4		4+	
Rooms	150		100		60	
Cost/Room	175,000	200,000	200,000	225,000	225,000	275,000
Total Construction Cost	26,250,000	30,000,000	20,000,000	22,500,000	13,500,000	16,500,000
Cost of Land		4,500,000		4,500,000		4,500,000
Total Development Cost	**30,750,000**	**34,500,000**	**24,500,000**	**27,000,000**	**18,000,000**	**21,000,000**

(Source: Kosmont Companies)

8.2 Required RevPAR of Alternatives

The next part of the evaluation was to estimate the RevPAR (again, the revenue per available room) required to generate the NOI required to support financing for the development alternatives. Kosmont estimated the minimum required RevPAR based on actual financing terms for ground up hotel construction currently being offered in the marketplace. The assumptions used include a maximum loan-to-value ratio of 70%, a 7-10% interest rate, 30 year amortization period, and a minimum initial debt service coverage ratio (“DSCR”) of 1.35. For reference, this loan profile provides for roughly a 7 – 9% cash on cash return in the initial year of stabilized operations, and growing thereafter. This figure does not take into account any additional required return from land holding costs.

The required NOI calculated as described above was then divided by typical ranges in net margins for each of the development alternatives. It should be noted that the margins evaluated are for stabilized operations, and the initial years of a hotel's operations tend to have significantly lower margins. As such, it is assumed that if the alternative developments are not financially feasible given stabilized operations and anticipated RevPAR rates, then taking into account start-up profiles would only result in further financial infeasibility. For reference anticipated RevPAR rates were based on operating hotels with profiles similar to those of the three development alternatives. Further, these figures were compared with PKF's research of market comparables and the two are similar in range.

As a result of this analysis the three development alternatives do not appear to be financially feasible with traditional financing under the parameters currently available in the market as defined above (excluding condominium hotel structures). Under each of the three development alternatives the RevPAR required to support the financing of each development was greater than the anticipated RevPAR attainable under the alternatives. The calculations and assumptions used in establishing this conclusion follow in Table 9: RevPAR Required to Support Development Alternatives – 7% Interest Rate and Table 10: RevPAR Required to Support Development Alternatives – 10% Interest Rate.

Table 9: RevPAR Required to Support Development Alternatives – 7% Interest Rate

	Alternative A		**Alternative B**		**Alternative C**	
Rooms	150		100		60	
Maximum LTV	70.0%		70.0%		70.0%	
Minimum Equity	9,225,000	10,350,000	7,350,000	8,100,000	5,400,000	6,300,000
Loan Principal	21,525,000	24,150,000	17,150,000	18,900,000	12,600,000	14,700,000
Amortization (yrs)	30		30		30	
Rate	7.00%		7.00%		7.00%	
Annual Payment	1,718,476	1,928,047	1,369,193	1,508,906	1,005,937	1,173,594
Minimum DSCR	1.35		1.35		1.35	
Minimum NOI	2,319,943	2,602,863	1,848,410	2,037,023	1,358,015	1,584,351
Net Margin	***26%***		***25%***		***22%***	
Minimum RevPAR	163	183	203	223	282	329
Net Margin	***30%***		***29%***		***28%***	
Minimum RevPAR	141	158	175	192	221	258

	Min	*Max*	*Min*	*Max*	*Min*	*Max*
Estimate of Required RevPAR	**$ 141**	**$ 183**	**$ 175**	**$ 223**	**$ 221**	**$ 329**
Anticipated Stabilized RevPAR	**$ 90**	**$ 115**	**$ 100**	**$ 125**	**$ 180**	**$ 215**
RevPAR +3 Yrs Growth	**$ 98**	**$ 126**	**$ 109**	**$ 137**	**$ 197**	**$ 235**

(Source: Kosmont Companies)

Table 10: RevPAR Required to Support Development Alternatives – 10% Interest Rate

	Alternative A		Alternative B		Alternative C	
Rooms	150		100		60	
Maximum LTV	70.0%		70.0%		70.0%	
Minimum Equity	9,225,000	10,350,000	7,350,000	8,100,000	5,400,000	6,300,000
Loan Principal	21,525,000	24,150,000	17,150,000	18,900,000	12,600,000	14,700,000
Amortization (yrs)	30		30		30	
Rate	10.00%		10.00%		10.00%	
Annual Payment	2,266,767	2,543,202	1,806,042	1,990,332	1,326,888	1,548,036
Minimum DSCR	1.35		1.35		1.35	
Minimum NOI	3,060,136	3,433,323	2,438,157	2,686,949	1,791,299	2,089,849
Net Margin	***26%***		***25%***		***22%***	
Minimum RevPAR	215	241	267	294	372	434
Net Margin	***30%***		***29%***		***28%***	
Minimum RevPAR	186	209	230	254	292	341

	Min	*Max*	*Min*	*Max*	*Min*	*Max*
Estimate of Required RevPAR	**$ 186**	**$ 241**	**$ 230**	**$ 294**	**$ 292**	**$ 434**
Anticipated Stabilized RevPAR	**$ 90**	**$ 115**	**$ 100**	**$ 125**	**$ 180**	**$ 215**
RevPAR +3 Yrs Growth	**$ 98**	**$ 126**	**$ 109**	**$ 137**	**$ 197**	**$ 235**

(Source: Kosmont Companies)

In summary, as shown above, even at an aggressive 7% interest rate, Alternative A would likely require RevPAR of $141 – $183 or more to even attract financing, yet anticipated stabilized RevPAR is $90 - $115 and RevPAR with three years of growth is anticipated to be $98 - $126. Required RevPAR with a 7% interest rate under Alternative B is estimated to be $175 - $223, yet anticipated RevPAR is only $100 - $125 and $109 - $137 respectively. Finally, assuming an aggressive 7% interest rate under Alternative C, required RevPAR is estimated to be $221 - $329, and anticipated RevPAR is only $180 – $215, and while with three years of growth the anticipated RevPAR of $197 – $235 provides some overlap, actual results would have to be the best case just to entice financing, and the overlap is not considered significant enough support a determination of financial feasibility.

Additionally, the above figures represent calculations based on stabilized operations, and as such, predict financial infeasibility even in stabilized operations, and further, provide no margin to support start-up operations. As such Kosmont concludes that the development of the three alternatives under traditional financing options currently available in the marketplace is likely financially infeasible.

8.3 Condominium Hotel Alternative

Alternative C meets the profile of developments potentially suitable for development financing through the sale of condominium hotel rooms. Under this scenario individual owners would purchase title to rooms and make up-front deposits and ultimately payments to the Developer to support the cost of construction and repay construction financing for the development of this alternative.

The financial feasibility of this structure is highly dependent on the attainable sales price for individual rooms. Based on Kosmont's calculations as provided below, a minimum average sale price of approximately $225,000 per room would be required to begin to attain financial feasibility for development.

For reference, other condominium hotels in local, superior markets with proven, stable operations have been trading in the range of $400,000 to $450,000 per room. Traditionally, new ownership opportunities trade at a significant discount until development risk is reduced, hotel operations are established, and market interest clearly determined. Additionally, the ability for prospective buyers to obtain financing for the purchase of to be built units can be limited, and the pool of potential buyers reduced given the current economic environment. The assumptions and results of this analysis follow in Table 11: RevPAR Required - Alternative C, Condominium Hotel Financing

Table 11: RevPAR Required - Alternative C, Condominium Hotel Financing

	Alternative C	
Quality	4+	
Rooms	60	
Cost/Room	225,000	275,000
Total Construction Cost	13,500,000	16,500,000
Cost of Land		4,500,000
Total Development Cost	**18,000,000**	**21,000,000**
Average Price of Condo Hotel Unit		225,000
Revenue from Condo Sales		13,500,000
Required RevPAR		
Maximum LTV	70.0%	
Minimum Equity	-	-
Loan Principal	4,500,000	7,500,000
Amortization (yrs)	30	
Rate	7.00%	
Annual Payment	359,263	598,772
Minimum Coverage	1.35	
NOI Split with Property Owner	50%	
Minimum Gross NOI	970,011	1,616,685
Days/Year Fractional Owner Use		60
Adjustment Factor	-16.4%	
Net Margin	***22%***	
Minimum RevPAR	201	336
Net Margin	***28%***	
Minimum RevPAR	158	264

	Min	*Max*
Estimate of Required RevPAR	**$ 158**	**$ 336**
Anticipated RevPAR	**$ 150**	**$ 180**

(Source: Kosmont Companies)

In summary, as shown above in Table 11: RevPAR Required - Alternative C, Condominium Hotel Financing, based on the minimum required RevPAR of $158 and anticipated effective RevPAR ranging from $150 - $180 (reduced based on owner use of unit) this alternative may be financially feasible. However, given the range of required RevPAR, and reliance on a minimum sales price of $225,000 per unit the financial feasibility of this alternative is not certain. Further, small boutique hotel projects are typically projects that reflect the individual passion and skill set of a specialized boutique developer / operator, frequently requiring significant design amenities and operating distinctions (class A restaurant and progressive lounge and / or cabana pool scene) that while possible to achieve, significantly increase the costs and as a result, the risk profile of the project as well. Such an operation may also not be in keeping with local resident preferences as to users and peak usage times. Overall, the boutique hotel project may be viable but in current market conditions sufficiently challenging to predict a reliable result for, and therefore an unattractive option for potential developers.

9.0 Summary & Conclusions

In conclusion, Kosmont evaluated the PKF reports on the projected performance of hotel development scenarios, and separately performed an evaluation of the financial feasibility of additional hotel development alternatives on the Site.

As a result of this analysis it appears that the four development scenarios included in the 2009 PKF report are financially infeasible as the projected net operating income would not be sufficient to secure development financing, and equity returns would be too low to encourage developer investment. Additionally Kosmont developed and evaluated three additional alternatives likely in conformance with the 1996 Specific Plan covering the property. The three additional alternatives evaluated were a 150 room hotel, a 100 room hotel, and a 60 room condominium boutique hotel.

The first two alternatives were evaluated for financial feasibility based on current market conditions including average room rates and financing available for ground up hotel construction. Based on this evaluation, it is Kosmont's conclusion that it is unlikely that the revenue required to support the potential development profiles could be generated by either alternative, and as such concludes that these two development alternatives are financially infeasible.

Finally the analysis of the 60 room condominium hotel suggests that this alternative may be financially feasible. However, a potential lack of financing available for prospective buyers, uncertainty of and sensitivity to market interest and attainable sales values, and a risky project profile based on whether the hotel will deliver precisely the right and somewhat unique product type to engender consistent demand, all contribute to make project feasibility marginal. As such, financial feasibility of even this alternative is far from certain and this uncertainty likely represents a legitimate and fatal hurdle to developer interest in such a project.

Attachment: A
PKF Scenario One

PKF Scenario One 150 Rooms		1 2014	2 2015	3 2016	4 2017	5 2018	6 2019	7 2020	8 2021	9 2022	10 2023
Occupancy	72.0%	58.0%	64.0%	67.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Average Daily Rate:		167.00	172.00	177.00	182.00	188.00	194.00	199.00	205.00	211.00	218.00
Average Daily Rate (Adjusted):	3.0%	167.00	172.00	177.00	182.00	188.00	194.00	199.00	205.00	211.00	218.00
			3.0%	2.9%	2.8%	3.3%	3.2%	2.6%	3.0%	2.9%	3.3%
Revenue Per Available Room		96.86	110.08	118.59	131.04	135.36	139.68	143.28	147.60	151.92	156.96
Revenue											
Room Revenue		5,303,085	6,026,880	6,492,803	7,174,440	7,410,960	7,647,480	7,844,580	8,081,100	8,317,620	8,593,560
Food & Beverage		2,210,098	2,511,744	2,705,921	2,989,998	3,088,570	3,187,141	3,269,284	3,367,855	3,466,426	3,581,426
Other Operated Departments		552,730	628,169	676,732	747,777	772,429	797,081	817,625	842,277	866,929	895,689
Rentals & Other Income		147,011	167,076	179,993	198,889	205,446	212,002	217,466	224,023	230,580	238,229
Total Revenue		8,212,924	9,333,870	10,055,448	11,111,104	11,477,404	11,843,705	12,148,955	12,515,255	12,881,555	13,308,905
Departmental Expense											
Rooms		1,442,439	1,554,935	1,636,186	1,743,389	1,800,863	1,858,338	1,906,233	1,963,707	2,021,182	2,088,235
Food & Beverage		1,792,389	1,951,625	2,061,912	2,212,599	2,285,541	2,358,484	2,419,270	2,492,213	2,565,156	2,650,256
Other Operated Departments		386,911	439,719	473,712	523,444	540,701	557,957	572,337	589,594	606,850	626,983
Total Departmental Expense		3,621,739	3,946,279	4,171,810	4,479,432	4,627,105	4,774,779	4,897,840	5,045,514	5,193,187	5,365,473
Departmental Profit		4,591,185	5,387,591	5,883,637	6,631,673	6,850,299	7,068,926	7,251,115	7,469,741	7,688,368	7,943,432
Undistributed Operating Expenses											
Administrative & General		1,043,041	1,073,395	1,106,099	1,138,888	1,176,434	1,213,980	1,245,268	1,282,814	1,320,359	1,364,163
Marketing		521,521	536,698	553,050	568,889	587,643	606,398	622,026	640,781	659,536	681,416
Prop. Operations & Maintenance		521,521	536,698	553,050	568,889	587,643	606,398	622,026	640,781	659,536	681,416
Utilities		243,103	251,081	258,425	265,555	274,310	283,065	290,360	299,115	307,869	318,083
Total Undistributed Operating Expenses		2,329,185	2,397,871	2,470,623	2,542,221	2,626,030	2,709,840	2,779,681	2,863,490	2,947,300	3,045,077
Gross Operating Profit		2,261,999	2,989,720	3,413,014	4,089,452	4,224,269	4,359,086	4,471,434	4,606,251	4,741,068	4,898,354
Management Fee		246,388	280,016	301,663	333,333	344,322	355,311	364,469	375,458	386,447	399,267
Fixed Expenses											
Property Taxes		273,000	306,900	313,038	319,299	325,685	332,198	338,842	345,619	352,532	359,582
Insurance		129,764	134,408	137,760	142,222	146,911	151,599	155,507	160,195	164,884	170,354
Total Fixed Expenses		402,764	441,308	450,798	461,521	472,596	483,798	494,349	505,815	517,416	529,936
Net Operating Income Before Reserve		1,612,847	2,268,396	2,660,553	3,294,598	3,407,351	3,519,977	3,612,616	3,724,979	3,837,206	3,969,151
Furniture, Fixture & Equipment Reserve		164,258	280,016	402,218	444,444	459,096	473,748	485,958	500,610	515,262	532,356
Net Operating Income After Reserve		**1,448,589**	**1,988,380**	**2,258,335**	**2,850,154**	**2,948,255**	**3,046,229**	**3,126,658**	**3,224,368**	**3,321,943**	**3,436,795**

(Source: 2009 PKF Study)

PKF Scenario One 150 Rooms		1 2012	2 2013	3 2014	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Revenue											
Room Revenue	64.57%	64.57%	64.57%	64.57%	64.57%	64.57%	64.57%	64.57%	64.57%	64.57%	64.57%
Food & Beverage	26.91%	26.91%	26.91%	26.91%	26.91%	26.91%	26.91%	26.91%	26.91%	26.91%	26.91%
Other Operated Departments	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%
Rentals & Other Income	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%
Total Revenue	100.0%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Departmental Expense											
Rooms	24.30%	27.2%	25.8%	25.2%	24.3%	24.3%	24.3%	24.3%	24.3%	24.3%	24.3%
Food & Beverage	74.00%	81.1%	77.7%	76.2%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
Other Operated Departments	70.00%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Total Departmental Expense		44.1%	42.3%	41.5%	40.3%	40.3%	40.3%	40.3%	40.3%	40.3%	40.3%
Departmental Profit		55.9%	57.7%	58.5%	59.7%	59.7%	59.7%	59.7%	59.7%	59.7%	59.7%
Undistributed Operating Expenses											
Administrative & General	10.25%	12.7%	11.5%	11.0%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Marketing	5.12%	6.4%	5.8%	5.5%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Prop. Operations & Maintenance	5.12%	6.4%	5.8%	5.5%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Utilities	2.39%	3.0%	2.7%	2.6%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Total Undistributed Operating Expenses	22.9%	28.4%	25.7%	24.6%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%
Gross Operating Profit		27.5%	32.0%	33.9%	36.8%	36.8%	36.8%	36.8%	36.8%	36.8%	36.8%
Management Fee	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fixed Expenses											
Property Taxes	Formula	3.3%	3.3%	3.1%	2.9%	2.8%	2.8%	2.8%	2.8%	2.7%	2.7%
Insurance	1.28%	1.6%	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Total Fixed Expenses		4.9%	4.7%	4.5%	4.2%	4.1%	4.1%	4.1%	4.0%	4.0%	4.0%
Net Operating Income Before Reserve		19.6%	24.3%	26.5%	29.7%	29.7%	29.7%	29.7%	29.8%	29.8%	29.8%
Furniture, Fixture & Equipment Reserve	4.00%	2.0%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Net Operating Income After Reserve		**17.6%**	**21.3%**	**22.5%**	**25.7%**	**25.7%**	**25.7%**	**25.7%**	**25.8%**	**25.8%**	**25.8%**

(Source: 2009 PKF Study)

Attachment: B
PKF Scenario Two

PKF Scenario Two 75 Rooms		1 2014	2 2015	3 2016	4 2017	5 2018	6 2019	7 2020	8 2021	9 2022	10 2023
Occupancy	74.0%	60.0%	64.0%	69.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
Average Daily Rate:		191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
Average Daily Rate (Adjusted):	3.0%	191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
			3.1%	3.0%	3.0%	2.9%	3.3%	2.7%	3.1%	3.0%	3.3%
Revenue Per Available Room		114.60	126.08	140.07	154.66	159.10	164.28	168.72	173.90	179.08	185.00
Revenue											
Room Revenue		3,137,175	3,451,440	3,834,416	4,233,818	4,355,363	4,497,165	4,618,710	4,760,513	4,902,315	5,064,375
Food & Beverage		1,332,954	1,466,482	1,629,205	1,798,906	1,850,550	1,910,800	1,962,443	2,022,694	2,082,944	2,151,802
Other Operated Departments		571,047	628,251	697,963	770,664	792,788	818,600	840,724	866,536	892,348	921,847
Rentals & Other Income		75,730	83,316	92,561	102,203	105,137	108,560	111,494	114,917	118,340	122,252
Total Revenue		5,116,906	5,629,489	6,254,145	6,905,590	7,103,837	7,335,125	7,533,371	7,764,659	7,995,947	8,260,276
Departmental Expense											
Rooms		828,214	880,117	939,432	1,000,874	1,029,608	1,063,130	1,091,863	1,125,385	1,158,907	1,197,218
Food & Beverage		1,107,685	1,183,451	1,274,038	1,367,169	1,406,418	1,452,208	1,491,457	1,537,247	1,583,038	1,635,369
Other Operated Departments		399,733	439,776	488,574	539,465	554,952	573,020	588,507	606,575	624,643	645,293
Total Departmental Expense		2,335,632	2,503,344	2,702,044	2,907,508	2,990,977	3,088,358	3,171,827	3,269,208	3,366,588	3,477,880
Departmental Profit		2,781,274	3,126,146	3,552,101	3,998,082	4,112,860	4,246,767	4,361,545	4,495,452	4,629,359	4,782,395
Undistributed Operating Expenses											
Administrative & General		649,847	669,909	694,210	713,347	733,826	757,718	778,197	802,089	825,981	853,286
Marketing		347,950	360,287	368,995	379,807	390,711	403,432	414,335	427,056	439,777	454,315
Prop. Operations & Maintenance		322,365	332,140	343,978	352,185	362,296	374,091	384,202	395,998	407,793	421,274
Utilities		158,624	163,255	168,862	171,259	176,175	181,911	186,828	192,564	198,299	204,855
Total Undistributed Operating Expenses		1,478,786	1,525,592	1,576,045	1,616,599	1,663,008	1,717,153	1,763,562	1,817,707	1,871,851	1,933,731
Gross Operating Profit		1,302,488	1,600,554	1,976,057	2,381,484	2,449,852	2,529,614	2,597,982	2,677,745	2,757,507	2,848,665
Management Fee		153,507	168,885	187,624	207,168	213,115	220,054	226,001	232,940	239,878	247,808
Fixed Expenses											
Property Taxes		154,000	173,000	176,460	179,989	183,589	187,261	191,006	194,826	198,723	202,697
Insurance		86,987	90,072	93,812	95,297	98,033	101,225	103,961	107,152	110,344	113,992
Total Fixed Expenses		240,987	263,072	270,272	275,286	281,622	288,485	294,967	301,978	309,067	316,689
Net Operating Income Before Reserve		907,994	1,168,597	1,518,160	1,899,030	1,955,115	2,021,075	2,077,015	2,142,827	2,208,562	2,284,168
Furniture, Fixture & Equipment Reserve		102,338	168,885	250,166	276,224	284,153	293,405	301,335	310,586	319,838	330,411
Net Operating Income After Reserve		**805,656**	**999,713**	**1,267,994**	**1,622,806**	**1,670,961**	**1,727,670**	**1,775,680**	**1,832,240**	**1,888,725**	**1,953,757**

(Source: 2009 PKF Study)

PKF Scenario Two		1	2	3	4	5	6	7	8	9	10
75 Rooms		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue											
Room Revenue	61.31%	61.31%	61.31%	61.31%	61.31%	61.31%	61.31%	61.31%	61.31%	61.31%	61.31%
Food & Beverage	26.05%	26.05%	26.05%	26.05%	26.05%	26.05%	26.05%	26.05%	26.05%	26.05%	26.05%
Other Operated Departments	11.16%	11.16%	11.16%	11.16%	11.16%	11.16%	11.16%	11.16%	11.16%	11.16%	11.16%
Rentals & Other Income	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%
Total Revenue	100.0%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Departmental Expense											
Rooms	23.64%	26.4%	25.5%	24.5%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%
Food & Beverage	76.00%	83.1%	80.7%	78.2%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Other Operated Departments	70.00%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Total Departmental Expense		45.6%	44.5%	43.2%	42.1%	42.1%	42.1%	42.1%	42.1%	42.1%	42.1%
Departmental Profit		54.4%	55.5%	56.8%	57.9%	57.9%	57.9%	57.9%	57.9%	57.9%	57.9%
Undistributed Operating Expenses											
Administrative & General	10.33%	12.7%	11.9%	11.1%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Marketing	5.50%	6.8%	6.4%	5.9%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Prop. Operations & Maintenance	5.10%	6.3%	5.9%	5.5%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Utilities	2.48%	3.1%	2.9%	2.7%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Total Undistributed Operating Expenses	23.4%	28.9%	27.1%	25.2%	23.4%	23.4%	23.4%	23.4%	23.4%	23.4%	23.4%
Gross Operating Profit		25.5%	28.4%	31.6%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%
Management Fee	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fixed Expenses											
Property Taxes	Formula	3.0%	3.1%	2.8%	2.6%	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%
Insurance	1.38%	1.7%	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Total Fixed Expenses		4.7%	4.7%	4.3%	4.0%	4.0%	3.9%	3.9%	3.9%	3.9%	3.8%
Net Operating Income Before Reserve		17.7%	20.8%	24.3%	27.5%	27.5%	27.6%	27.6%	27.6%	27.6%	27.7%
Furniture, Fixture & Equipment Reserve	4.00%	2.0%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Net Operating Income After Reserve		**15.7%**	**17.8%**	**20.3%**	**23.5%**	**23.5%**	**23.6%**	**23.6%**	**23.6%**	**23.6%**	**23.7%**

(Source: 2009 PKF Study)

Attachment: C

PKF Scenario Three

PKF Scenario Three		1	2	3	4	5	6	7	8	9	10
100 Rooms		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Occupancy	74.0%	59.0%	64.0%	69.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
Average Daily Rate:		191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
Average Daily Rate (Adjusted):	3.0%	191.00	197.00	203.00	209.00	215.00	222.00	228.00	235.00	242.00	250.00
			3.1%	3.0%	3.0%	2.9%	3.3%	2.7%	3.1%	3.0%	3.3%
Revenue Per Available Room		112.69	126.08	140.07	154.66	159.10	164.28	168.72	173.90	179.08	185.00
Revenue											
Room Revenue		4,113,185	4,601,920	5,112,555	5,645,090	5,807,150	5,996,220	6,158,280	6,347,350	6,536,420	6,752,500
Food & Beverage		1,620,266	1,812,788	2,013,938	2,223,714	2,287,553	2,362,031	2,425,870	2,500,348	2,574,827	2,659,945
Other Operated Departments		747,613	836,445	929,258	1,026,052	1,055,508	1,089,873	1,119,329	1,153,694	1,188,060	1,227,334
Rentals & Other Income		100,033	111,919	124,337	137,289	141,230	145,828	149,769	154,368	158,966	164,221
Total Revenue		6,581,096	7,363,072	8,180,088	9,032,144	9,291,440	9,593,952	9,853,248	10,155,760	10,458,272	10,804,000
Departmental Expense											
Rooms		1,098,220	1,173,490	1,252,576	1,334,499	1,372,810	1,417,506	1,455,817	1,500,514	1,545,210	1,596,291
Food & Beverage		1,356,163	1,463,827	1,574,899	1,690,023	1,738,540	1,795,144	1,843,661	1,900,265	1,956,868	2,021,558
Other Operated Departments		523,329	585,511	650,481	718,236	738,855	762,911	783,530	807,586	831,642	859,134
Total Departmental Expense		2,977,712	3,222,828	3,477,956	3,742,758	3,850,205	3,975,561	4,083,009	4,208,364	4,333,720	4,476,983
Departmental Profit		3,603,384	4,140,244	4,702,132	5,289,386	5,441,235	5,618,391	5,770,239	5,947,396	6,124,552	6,327,017
Undistributed Operating Expenses											
Administrative & General		789,732	809,938	836,005	861,667	886,403	915,263	940,000	968,860	997,719	1,030,702
Marketing		414,609	427,058	441,725	456,123	469,218	484,495	497,589	512,866	528,143	545,602
Prop. Operations & Maintenance		414,609	427,058	441,725	456,123	469,218	484,495	497,589	512,866	528,143	545,602
Utilities		210,595	213,529	220,862	227,610	234,144	241,768	248,302	255,925	263,548	272,261
Total Undistributed Operating Expenses		1,829,545	1,877,583	1,940,317	2,001,523	2,058,983	2,126,020	2,183,480	2,250,516	2,317,553	2,394,166
Gross Operating Profit		1,773,840	2,262,661	2,761,815	3,287,863	3,382,251	3,492,371	3,586,760	3,696,879	3,806,999	3,932,850
Management Fee		197,433	220,892	245,403	270,964	278,743	287,819	295,597	304,673	313,748	324,120
Fixed Expenses											
Property Taxes		217,000	244,000	248,880	253,858	258,935	264,113	269,396	274,784	280,279	285,885
Insurance		118,460	117,809	122,701	126,450	130,080	134,315	137,945	142,181	146,416	151,256
Total Fixed Expenses		335,460	361,809	371,581	380,308	389,015	398,429	407,341	416,964	426,695	437,141
Net Operating Income Before Reserve		1,240,947	1,679,960	2,144,831	2,636,591	2,714,493	2,806,124	2,883,821	2,975,242	3,066,556	3,171,590
Furniture, Fixture & Equipment Reserve		131,622	220,892	327,204	361,286	371,658	383,758	394,130	406,230	418,331	432,160
Net Operating Income After Reserve		**1,109,325**	**1,459,068**	**1,817,628**	**2,275,305**	**2,342,836**	**2,422,366**	**2,489,691**	**2,569,012**	**2,648,225**	**2,739,430**

(Source: 2009 PKF Study)

PKF Scenario Three		1	2	3	4	5	6	7	8	9	10
100 Rooms		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue											
Room Revenue	62.50%	62.50%	62.50%	62.50%	62.50%	62.50%	62.50%	62.50%	62.50%	62.50%	62.50%
Food & Beverage	24.62%	24.62%	24.62%	24.62%	24.62%	24.62%	24.62%	24.62%	24.62%	24.62%	24.62%
Other Operated Departments	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%
Rentals & Other Income	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%
Total Revenue	100.000%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Departmental Expense											
Rooms	23.64%	26.7%	25.5%	24.5%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%
Food & Beverage	76.00%	83.7%	80.8%	78.2%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Other Operated Departments	70.00%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Total Departmental Expense		45.2%	43.8%	42.5%	41.4%	41.4%	41.4%	41.4%	41.4%	41.4%	41.4%
Departmental Profit		54.8%	56.2%	57.5%	58.6%	58.6%	58.6%	58.6%	58.6%	58.6%	58.6%
Undistributed Operating Expenses											
Administrative & General	9.54%	12.0%	11.0%	10.2%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Marketing	5.05%	6.3%	5.8%	5.4%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Prop. Operations & Maintenance	5.05%	6.3%	5.8%	5.4%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Utilities	2.52%	3.2%	2.9%	2.7%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Total Undistributed Operating Expenses	22.2%	27.8%	25.5%	23.7%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%
Gross Operating Profit		27.0%	30.7%	33.8%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%	36.4%
Management Fee	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fixed Expenses											
Property Taxes	Formula	3.3%	3.3%	3.0%	2.8%	2.8%	2.8%	2.7%	2.7%	2.7%	2.6%
Insurance	1.40%	1.8%	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Total Fixed Expenses		5.1%	4.9%	4.5%	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%	4.0%
Net Operating Income Before Reserve		18.9%	22.8%	26.2%	29.2%	29.2%	29.2%	29.3%	29.3%	29.3%	29.4%
Furniture, Fixture & Equipment Reserve	4.00%	2.0%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Net Operating Income After Reserve		**16.9%**	**19.8%**	**22.2%**	**25.2%**	**25.2%**	**25.2%**	**25.3%**	**25.3%**	**25.3%**	**25.4%**

(Source: 2009 PKF Study)

Attachment: D
PKF Scenario Four

PKF Scenario Four		1	2	3	4	5	6	7	8	9	10
50 Rooms		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Occupancy	80.0%	60.0%	65.0%	70.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Average Daily Rate:		194.00	199.00	205.00	212.00	218.00	224.00	231.00	238.00	245.00	253.00
Average Daily Rate (Adjusted):	3.0%	194.00	199.00	205.00	212.00	218.00	224.00	231.00	238.00	245.00	253.00
			2.6%	3.0%	3.4%	2.8%	2.8%	3.1%	3.0%	2.9%	3.3%
Revenue Per Available Room		116.40	129.35	143.50	169.60	174.40	179.20	184.80	190.40	196.00	202.40
Revenue											
Room Revenue		2,124,300	2,360,638	2,618,875	3,095,200	3,182,800	3,270,400	3,372,600	3,474,800	3,577,000	3,693,800
Food & Beverage		1,335,619	1,484,212	1,646,575	1,946,057	2,001,134	2,056,211	2,120,467	2,184,724	2,248,981	2,322,417
Other Operated Departments		381,884	424,370	470,793	556,421	572,169	587,917	606,289	624,662	643,034	664,031
Rentals & Other Income		50,996	56,669	62,868	74,303	76,406	78,509	80,962	83,416	85,869	88,673
Total Revenue		3,892,798	4,325,889	4,799,111	5,671,981	5,832,509	5,993,036	6,180,319	6,367,601	6,554,884	6,768,921
Departmental Expense											
Rooms		552,318	590,159	628,530	722,729	743,184	763,638	787,502	811,366	835,230	862,502
Food & Beverage		1,109,899	1,190,338	1,281,035	1,479,003	1,520,862	1,562,720	1,611,555	1,660,390	1,709,225	1,765,037
Other Operated Departments		267,318	297,059	329,555	389,495	400,518	411,542	424,402	437,263	450,124	464,822
Total Departmental Expense		1,929,536	2,077,557	2,239,120	2,591,227	2,664,564	2,737,900	2,823,460	2,909,019	2,994,579	3,092,361
Departmental Profit		1,963,262	2,248,332	2,559,991	3,080,754	3,167,945	3,255,136	3,356,859	3,458,582	3,560,305	3,676,560
Undistributed Operating Expenses											
Administrative & General		435,993	449,892	460,715	514,449	529,009	543,568	560,555	577,541	594,528	613,941
Marketing		233,568	237,924	244,755	274,524	282,293	290,063	299,127	308,192	317,256	327,616
Prop. Operations & Maintenance		214,104	220,620	230,357	254,105	261,296	268,488	276,878	285,269	293,659	303,248
Utilities		105,106	108,147	110,380	123,649	127,149	130,648	134,731	138,814	142,896	147,562
Total Undistributed Operating Expenses		988,771	1,016,584	1,046,206	1,166,726	1,199,747	1,232,768	1,271,292	1,309,816	1,348,340	1,392,367
Gross Operating Profit		974,492	1,231,748	1,513,785	1,914,027	1,968,198	2,022,368	2,085,567	2,148,766	2,211,965	2,284,193
Management Fee		116,784	129,777	143,973	170,159	174,975	179,791	185,410	191,028	196,647	203,068
Fixed Expenses											
Property Taxes		116,000	130,000	132,600	135,252	137,957	140,716	143,531	146,401	149,329	152,316
Insurance		58,392	60,562	60,949	68,631	70,573	72,516	74,782	77,048	79,314	81,904
Total Fixed Expenses		174,392	190,562	193,549	203,883	208,530	213,232	218,312	223,449	228,643	234,220
Net Operating Income Before Reserve		683,316	911,409	1,176,263	1,539,985	1,584,692	1,629,345	1,681,846	1,734,289	1,786,676	1,846,906
Furniture, Fixture & Equipment Reserve		77,856	129,777	191,964	226,879	233,300	239,721	247,213	254,704	262,195	270,757
Net Operating Income After Reserve		**605,460**	**781,633**	**984,298**	**1,313,106**	**1,351,392**	**1,389,624**	**1,434,633**	**1,479,585**	**1,524,480**	**1,576,149**

(Source: 2009 PKF Study)

PKF Scenario Four 50 Rooms		1 2012	2 2013	3 2014	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Revenue											
Room Revenue	54.57%	54.57%	54.57%	54.57%	54.57%	54.57%	54.57%	54.57%	54.57%	54.57%	54.57%
Food & Beverage	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%
Other Operated Departments	9.81%	9.81%	9.81%	9.81%	9.81%	9.81%	9.81%	9.81%	9.81%	9.81%	9.81%
Rentals & Other Income	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%	1.31%
Total Revenue	100.0%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Departmental Expense											
Rooms	23.35%	26.0%	25.0%	24.0%	23.4%	23.4%	23.4%	23.4%	23.4%	23.4%	23.4%
Food & Beverage	76.00%	83.1%	80.2%	77.8%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Other Operated Departments	70.00%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Total Departmental Expense		49.6%	48.0%	46.7%	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%	45.7%
Departmental Profit		50.4%	52.0%	53.3%	54.3%	54.3%	54.3%	54.3%	54.3%	54.3%	54.3%
Undistributed Operating Expenses											
Administrative & General	9.07%	11.2%	10.4%	9.6%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%
Marketing	4.84%	6.0%	5.5%	5.1%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Prop. Operations & Maintenance	4.48%	5.5%	5.1%	4.8%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Utilities	2.18%	2.7%	2.5%	2.3%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Total Undistributed Operating Expenses	20.6%	25.4%	23.5%	21.8%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%
Gross Operating Profit		25.0%	28.5%	31.5%	33.7%	33.7%	33.7%	33.7%	33.7%	33.7%	33.7%
Management Fee	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Fixed Expenses											
Property Taxes	Formula	3.0%	3.0%	2.8%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%
Insurance	1.21%	1.5%	1.4%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Total Fixed Expenses		4.5%	4.4%	4.0%	3.6%	3.6%	3.6%	3.5%	3.5%	3.5%	3.5%
Net Operating Income Before Reserve		17.6%	21.1%	24.5%	27.2%	27.2%	27.2%	27.2%	27.2%	27.3%	27.3%
Furniture, Fixture & Equipment Reserve	4.00%	2.0%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Net Operating Income After Reserve		**15.6%**	**18.1%**	**20.5%**	**23.2%**	**23.2%**	**23.2%**	**23.2%**	**23.2%**	**23.3%**	**23.3%**

(Source: 2009 PKF Study)